



STATE OF DELAWARE OTHER POST-EMPLOYMENT BENEFITS (OPEB) LIABILITY PRESENTATION

State Employee Benefits Committee (SEBC)
September 2022

- **Governor re-established RBSC by Executive Orders 34 and 51**
 - 13 Members -- Member from each General Assembly caucus, State Treasurer, Finance Secretary, OMB Director, Controller General, Pension Office Director, Statewide Benefits Director, and reps from AFSCME, DSEA and State Chamber.
- **Committee has met 12 times since September 2019**
 - Reviewed data on size/relative magnitude of OPEB liability and projected costs
 - Reviewed current retirement health plan design and eligibility
 - Discussed the Committee's goals for the State's OPEB benefits
 - Identified and reviewed options for reducing liability / controlling cost growth with benefits consultant and the plan actuary
 - Estimated potential impacts of OPEB liability reduction options, including annual pay-go costs, liability, and impact to individual plan members
- **Issued Initial Report (Nov 2021) and Annual Report (Mar 2022) to Governor, General Assembly and DEFAC**

The combination of enhanced funding and benefit reforms provide the most effective reductions in future unfunded liability.

- **Increase funding for the OPEB Trust Fund**
- **Support the SEBC's rollout in 2022 of the Medicare Advantage plan**
- **Continue review of other options addressing pre-Medicare retiree eligibility and costs for potential implementation effective 1/1/2024 or thereafter.**
 - Develop and implement plan to educate active employees.
 - Gain feedback on options under consideration through meetings, employee surveys and focus groups.
- **Next Report Due March 2023**

- 1) OPEB Liability is the Present Value of Future Retiree Healthcare Benefits**
 - Eligible Participants – Medicare Retirees; Pre-Medicare Retirees; Enrolled Actives; plus Spouses and dependents
 - Inflation Assumptions 2021 Valuation – Medical (4%-5.4%) Pharmacy (4%-6.7%)
 - Discount Rate - Bond Buyer 20 Year Index – **2.2% at June 2021 (but now rising)**

- 2) Rating Agencies (esp. S&P) increasingly concerned about the relative size of Delaware's unfunded OPEB Liability**
 - Per Capita - 26x higher than the median AAA-rated state
 - % of Personal Income – 14x higher than the median AAA-rated state
 - 8 of 14 AAA-rated states have no retiree health care, none for new hires or charge retirees 100% of the blended active premium

- 3) Current Fiscal Impacts**
 - Balance Sheet Liability - \$10.8 billion
 - No Employee Contributions toward liability
 - OPEB Trust -- \$0.65 billion (Underfunded)
 - OPEB Trust Funding Sources – 0.36% of payroll;
 - Pay-Go Funding -- **9.21% of payroll**; Annual Door Opener - \$12-20 million

Key Results – State OPEB



(Dollar amounts in millions)	2020	2021
Actives Actuarial Liability (AL)	\$ 5,179	\$ 5,693
Inactive AL	<u>4,698</u>	<u>5,080</u>
Total AL	\$ 9,877	\$10,773
Market Value of Assets (MVA)	<u>464</u>	<u>650</u>
UAL (Total AL – MVA)	\$ 9,413	\$10,123
MVA Funded Ratio (MVA/AL)	4.7%	6.0%
Eligible Participant Counts*		
Active	39,308	38,986
Terminated Vested	3,959	3,931
Inactive	<u>32,352</u>	<u>32,936</u>
Total	75,619	75,853

Eligible Participants are those active employees or terminated vested in the State, Judges, or State Police Retirement Plans. Inactive participants are retirees, disableds, spouses, and surviving spouses with medical coverage.

FY 2021 Actuarial Valuations - OPEB

Source: Postretirement Health Plan Actuarial Valuation Report as of July 1, 2021
Produced by Cheiron, December 2021

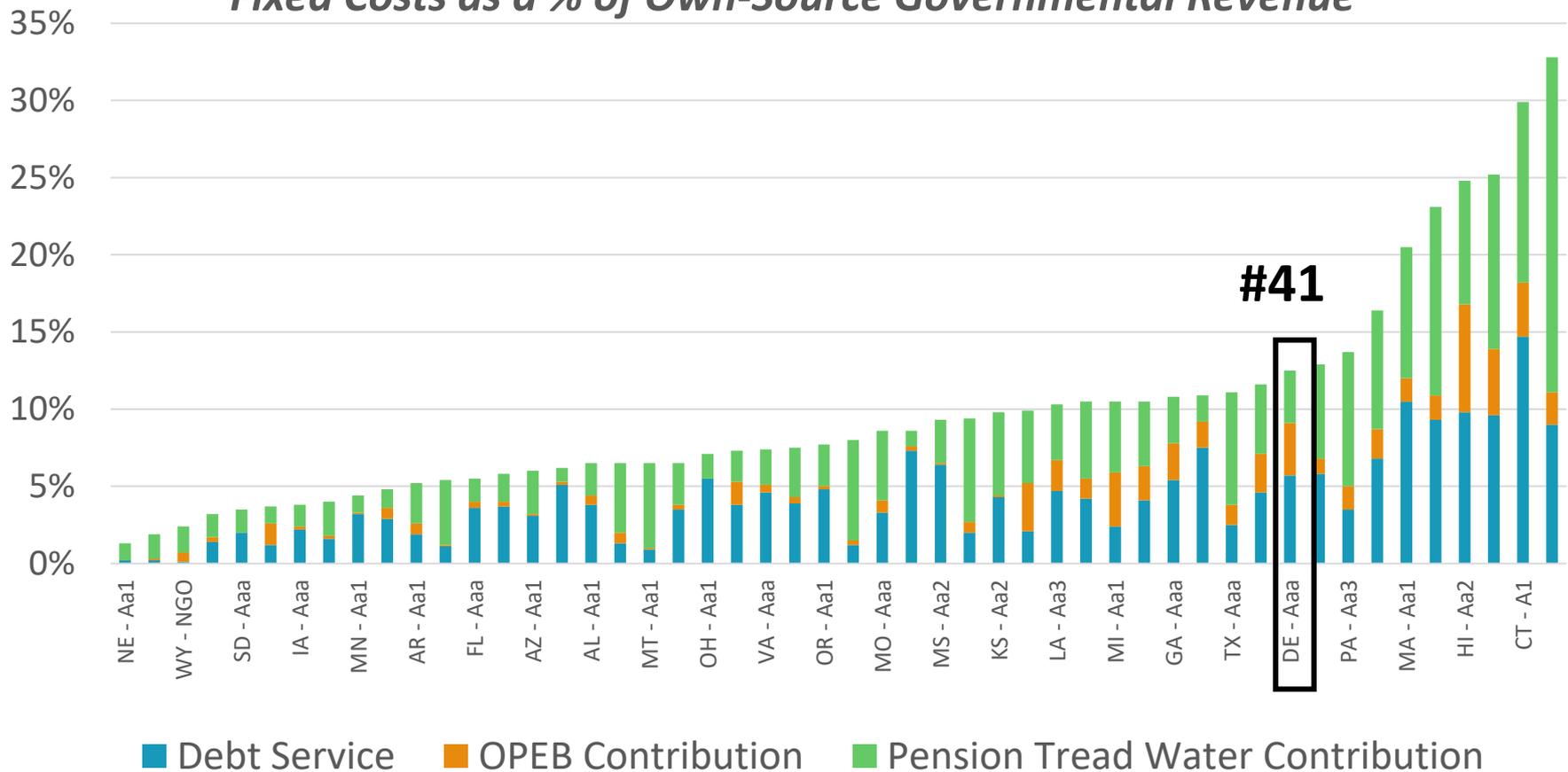
Table I-1
Summary of Key Valuation Results
(\$ In Millions)

Discount Rate	2.21%	2.16%
	July 1, 2020	July 1, 2021
Actuarial Liability (AL)	\$ 9,877.2	\$ 10,773.3
Assets	464.4	650.3
Unfunded Actuarial Liability (UAL)	\$ 9,412.8	\$ 10,123.0
	June 30, 2021	June 30, 2022
Annual Required Contribution (ARC)	\$ 734.8	\$ 784.3
<i>Actual / Expected</i> Contribution	267.2	264.6
<i>Actual / Expected</i> Net Benefit Payments	253.5	264.6

Delaware's Liabilities Are Higher Than Other States

- Delaware has among the highest fixed costs to fund its liabilities as a % of revenue.
- **Delaware's adjusted net OPEB liability / state personal income ranks 48th**

Fixed Costs as a % of Own-Source Governmental Revenue



Source: Moody's Investors Service, State Government Sector Profile, "Medians - Pension and OPEB liabilities fell in fiscal 2019 ahead of jump in 2020," September 8, 2020

OPEB Reform Goals

Why This is Important to the State and its Employees and Retirees

Avoid Erosion of Core Services

State has limited financial resources

OPEB pay-go costs are substantially fixed expenses

Maintain Capacity for Salaries

Current and future retiree health care costs can crowd out the opportunity for future raises

OPEB funding should be linked to the period of current employment

Ensure Long-Term Benefit Security

If costs become unsustainable, benefits can be impaired

Reforms can provide improved quality, preventative services, and health outcomes

Improve Public Confidence

Delaware's OPEB liability has been noted as a credit concern

Higher credit ratings = lower borrowing costs

RBSC Recommendations (March 2022)

<p>Increase Funding for OPEB Trust Fund</p>	<p>Adopt a substantial increase in recurring funding by incorporating a 1% Carveout within the State’s Benchmark Appropriation. Provide additional one-time contributions when circumstances permit.</p>
<p>Implement Group Medicare Advantage (MA)</p>	<p>SEBC’s evaluation of evolving MA market in Delaware yielded very competitive carrier proposals with benefits comparable to existing Medicfill plan. Support SEBC’s rollout in 2022 of Medicare Advantage plan for Medicare-eligible retirees effective January 1, 2023.</p>
<p>Consider Health Reimbursement Arrangements (HRAs) in future</p>	<p>Monitor realized savings and public employer trends over the next 5 years to determine the potential future desirability and feasibility of HRAs – moving to the individual marketplace with retirees receiving an annual HRA to purchase coverage and use accumulated excesses for out-of-pocket health care expenses.</p>
<p>Review Changes to Eligibility Years for State Share</p>	<p>Modify the eligibility schedule for State Share/subsidy for those hired since 1/2007 to 20 years = 50%, 25 years = 75% and 30 years = 100% after a certain effective date.</p>
<p>Review Eliminating Term Deferred Vested Benefits</p>	<p>Eliminate the ability to access retiree medical benefits for vested employees that terminate their State service without filing with the Pension Office for retirement. This would apply to employees that terminate after a certain effective date and require employees in the future to retire from State service in order to receive the retiree medical benefit.</p>
<p>Review Setting Minimum Ages</p>	<p>Establish a minimum age to enroll on the retiree medical plan of 60 for State Employees and 55 for employees subject to a mandatory retirement age, providing a deferred benefit for those that retire prior to the minimum . This would apply after a certain effective date, for those that not reached retirement eligibility status.</p>
<p>Review Spousal Subsidy for Active Spouses</p>	<p>Reduce State share/subsidy for spouses of retirees from 100% to 50% for future retirees after a certain effective date. No impact on current spouses of retirees.</p>

Combinations of Added Funding and Benefit Modifications Significantly Reduces OPEB Net Liability

		2050 Projection					
		Total Benefits	ADC	Accrued Liabilities	Trust Assets	Funded Ratio	Discount Rate
Benefit Eligibility Changes Combined with MA	Baseline (Updated Experience and Trust Assets)	\$842	\$2,466	\$37,022	\$4,626	12.5%	2.16%
	Baseline + .36% of Payroll Appropriation	\$842	\$2,439	\$37,022	\$5,682	15.8%	2.16%
	Baseline + 1% of Budget Index Carveout	\$842	\$964	\$19,088	\$9,818	51.4%	7.00%
	Baseline + Appropriation + Carveout	\$842	\$910	\$19,094	\$10,874	56.9%	7.00%
	Medicare Advantage w \$0 / Month Premium	\$629	\$552	\$13,971	\$10,874	77.8%	7.00%
	Graduated State Share Based on YOS ¹	\$626	\$405	\$12,159	\$10,874	89.4%	7.00%
	Minimum Required Age 60/ 55 ¹	\$514	\$267	\$10,742	\$10,874	101.2%	7.00%
	Reduce Spousal Subsidy for Future Retirees ¹	\$579	\$397	\$12,128	\$10,874	89.7%	7.00%

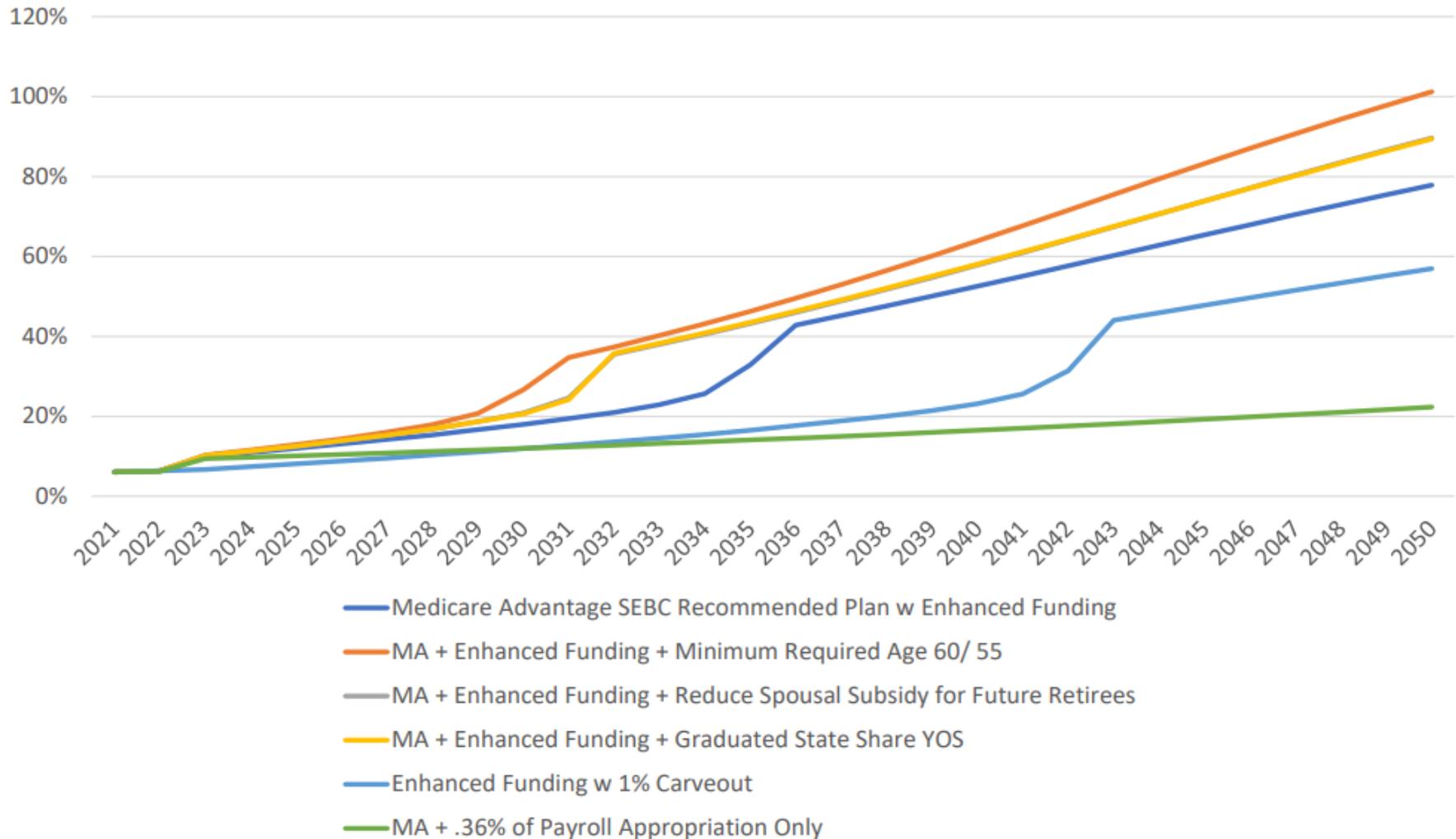
Presented to RBSC on
February 28, 2022

¹ Benefit eligibility modification applied to employees hired on or after 1/1/2012

Note: All benefit options reflect the appropriation plus 1% carveout funding

Combination of Benefit Modifications and Additional Funding Significantly Improve OPEB Funding Ratios

OPEB Estimated Funded Ratio with Medicare Advantage and Enhanced Funding



STATE OF DELAWARE
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LIABILITY PRESENTATION

Discussion / Questions ?